

Corporation Income Tax

Like the tax on individual income, the Missouri corporate income tax became effective January 1, 1917. The original tax rate was the same as that on individuals, a flat rate levy of one-half percent. The enabling legislation also defined all major tax items.

Concomitant with the changes in the individual tax, the Missouri corporation tax was redefined in terms of federal statutes effective January 1, 1973. The base for the corporation income tax is Missouri taxable income, which is defined as U.S. taxable income attributable to Missouri less certain deductions. Exhibit 6 details the relationships involved. Those items designated with a **T** are considered *tax expenditures*.

The corporation income tax, by its very nature, is a complicated device. As such it encompasses several significant provisions that are not encountered by its individual counterpart.

The first of these provisions is the net operating loss provisions. These permit a corporation to carry back operating losses to offset taxable income in prior years. If the income in these years is insufficient, the remaining losses may be carried forward. Another is the provision made for capital recovery. Of all the special provisions provided to the corporate sector, none is more complicated or has been changed as often as those relating to depreciation.

Other provisions of the corporation tax laws are, like their individual counterparts, based on political and practical considerations. These include intercorporate dividend payments, the amortization of research and start-up costs, the treatment of foreign income and special depletion provisions made to oil, gas and other mineral industries.

A final issue involves the proper allocation of corporate profits between political subdivisions—international and interstate. Unlike most individuals, many corporations operate in more than one state or country. The allocation of income between such jurisdictions is neither theoreti-

Corporation Income Tax by Calendar Year

2003 Rank: 4

2003 Tax Rate: 6.25%

	2001	2002	2003
Gross Receipts			
General Fund	381.3	394.9	329.1
Other	0.0	0.0	0.0
Tax Expenditures			
Exclusions	0.0	0.0	0.0
Deductions	52.9	63.9	NA
Credits	20.8	18.4	57.5

Figures in millions of dollars

cally straight forward nor mechanically easy. As a result, certain arbitrary rules and formulas have been developed to allocate the profits of multi-jurisdictional corporations. Obviously, this is of special interest in the case of interstate allocations.

Readers are again cautioned to view the revenue effects of the tax expenditures detailed in Exhibit 6 with some care. As previously mentioned, these may not accurately reflect the true costs of these subsidies. Further, as with the individual income tax expenditures, they cannot be aggregated in any meaningful manner.

Exhibit 6

Derivation of Missouri Taxable Income—Corporation

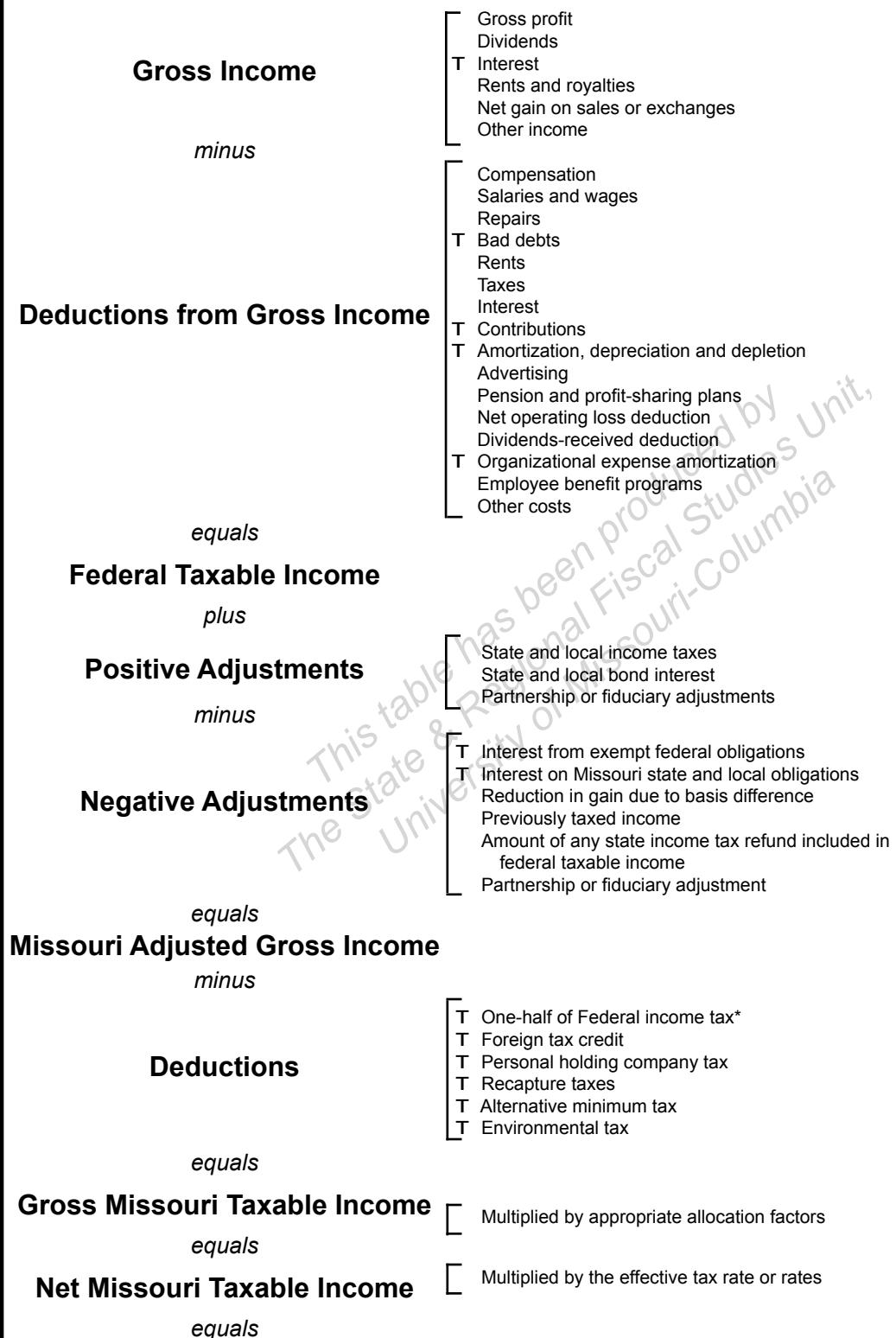


Exhibit 6 (continued) Derivation of Missouri Taxable Income—Corporation

Gross Tax Due Before Credits

less

Credits

equals

- T Neighborhood assistance credit
- T New or expanded business facility credit
- T Development reserve credit
- T Wood energy credit
- T Agricultural unemployed persons credit
- T Seed capital credit
- T Enterprise zone credit
- T Small business incubator credit
- T Infrastructure development credit
- T Export finance credit
- T Low income housing credit
- T Affordable housing credit
- T Qualified research credit
- T Small business investment credit
- T Community bank investment credit
- T Higher education scholarship credit
- T Brownfield Tax Benefits Tax Credit
- T Business use incentives credit
- T Youth opportunities credit
- T Charcoal producers credit
- T Historic preservation credit
- T Maternity home credit
- T Domestic violence shelter credit
- T Sponsorship & mentoring credit
- T Film production credit
- T Wine & grape production credit
- T Advantage Missouri Program credit
- T Rebuilding communities tax credit
- T Missouri individual training account program credit
- T Transportation development credit
- T Agricultural product utilization contributor credit
- T Bank tax credit for S corp. shareholders
- T Dry fire hydrant credit
- T Family development account credit
- T New enterprise creation credit
- T New generation cooperative incentive credit
- T Remediation tax credit
- T Shared care credit
- T Disabled Access credit
- T Mature worker child care credit
- T Strategic initiative investment income credit
- T Rebuilding community/neighborhood preservation credit
- T Bank franchise credit
- T Demolition tax credit
- T Development tax credit

Net Tax Due After Credits

*Prior to 1994 all federal income taxes were deductible.

T - Tax expenditure

Exhibit 7 - Part 1

Corporation Income Tax Expenditures - Missouri Statutes

1998-2008

	1998	1999	2000	2001*	2002	2003	2004F	2005F	2006F	2007F	2008F
Deductions											
C.01 Federal Income and Other Taxes	44.2	37.1	55.5	50.0F	48.0F	52.0F	55.0	58.0	60.0	63.0	NA
C.03 Enterprise Zone Modifications	2.8	2.9	2.9	2.9	•	•	NA	NA	NA	NA	NA
C.04 Brownfield Income Modification	•	x	•	•	7.3	•	NA	NA	NA	NA	NA
C.05 Mutual Fund Modification	x	x	x	x	x	•	13.0	NA	NA	NA	NA
Missouri Credits											
D.01 Neighborhood Assistance	1.5	1.3	1.3	0.15	0.28	1.68	2.19	2.27	2.35	2.43	2.52
D.02 New or Expanded Business	4.0	4.0	4.2	0.46	1.74	4.45	3.68	3.68	3.68	3.68	3.68
D.03 Development Reserve	•	•	•	x	0.06	0.11	0.11	0.12	0.12	0.13	0.13
D.04 Enterprise Zone	11.0	9.1	7.5	0.61	2.53	6.56	6.54	6.54	6.54	6.54	6.54
D.05 Wood Energy Producers	0.3	0.6	1.4	1.36	0.14	0.50	0.50	0.50	0.50	0.50	0.50
D.06 Seed Capital	0.1	0.1	0.3	x	0.01	0.15	0.15	0.15	0.15	0.15	0.15
D.08 Affordable Housing	0.7	3.7	1.6	0.19	0.01	1.08	1.25	1.11	0.99	0.88	0.78
D.09 Export Finance	•	•	•	x	x	x	x	x	x	x	x
D.10 Low Income Housing	3.4	4.2	0.9	2.75	2.66	2.66F	2.90	3.13	3.37	3.63	3.92
D.11 Small Business Incubator	•	0.0	•	0.03	x	0.01	0.04	0.04	0.04	0.04	0.04
D.12 Infrastructure Development	22.7	16	4.1	1.42	0.36	1.41	4.22	5.06	6.08	7.29	8.75
D.13 Qualified Research Expense	1.5	1.2	1.2	0.01	1.04	1.38	5.89	5.89	5.89	5.89	5.89
D.14 Small Business Investment	•	0.1	•	x	x	x	x	x	x	x	x
D.15 Community Bank Investment	0.1	•	•	0.01	x	0.15	0.15	0.17	0.18	0.20	0.22
D.16 Higher Education Scholarship	•	•	•	x	x	x	x	x	x	x	x
D.17 Brownfield Tax Benefits	•	•	•	x	x	x	0.01	0.08	0.17	0.33	0.67
D.18 Business Use Incentives (BUILD)	0.4	0.6	2.5	1.92	x	5.23	5.23	5.23	5.23	5.23	5.23
D.19 Youth Opportunities	0.3	0.1	0.1	0.13	0.13	0.17	0.28	0.33	0.34	0.34	0.34
D.20 Charcoal Producers	•	•	0.1	0.09	0.03	0.15	0.15	0.15	0.15	0.15	0.15
D.21 Historic Preservation	2.3	2.3	2.6	1.02	0.42	11.06	12.02	10.80	9.71	8.73	7.84
D.22 Maternity Home	•	•	•	0.06	0.02	0.02F	0.01	0.01	0.01	0.01	0.01
D.23 Domestic Violence Shelter	•	•	•	0.01	0.01	0.01F	0.01	0.01	0.02	0.02	0.02
D.24 Sponsorship & Mentoring	•	•	•	x	x	x	x	x	x	x	x
D.25 Film Production	x	x	•	0.07	x	x	x	x	x	x	x
D.26 Wine & Grape Production	x	x	0.1	x	x	x	x	x	x	x	x
D.27 Advantage Missouri Program	x	x	•	x	x	x	x	x	x	x	x
D.28 Rebuilding Communities	4	0.1	1.8	0.02	0.02	0.23	0.39	0.39	0.39	0.39	0.39
D.29 Missouri Individual Training Account Program	x	x	•	x	x	x	x	x	x	x	x
D.30 Transportation Development	x	x	•	x	x	0.01	0.02	0.02	0.01	0.01	0.01
D.34 Agricultural Product Utilization Contributor	x	x	•	0.54	0.35	x	x	x	x	x	x
D.35 Bank Tax Credit for S Corp Shareholders	x	x	x	x	x	x	x	x	x	x	x

See Appendix IV for information on D.31, D.32, and D.33.

Figures in millions of dollars; x = Not applicable • = Less than \$50,000, x = Less than \$5,000; F = Forecasted numbers; NA = Not available

*2001 figures are provisional subject to significant variations due to timing of credit redemption.

Exhibit 7 - Part 1 (continued)
Corporation Income Tax Expenditures - Missouri Statutes
1998-2008

	1998	1999	2000	2001*	2002	2003	2004F	2005F	2006F	2007F	2008F
Missouri Credits											
D.36 Dry Fire Hydrant	x	•	•	x	x	x	x	x	x	x	x
D.37 Family Development Account	x	•	•	x	x	x	0.01	0.01	0.01	0.02	0.03
D.38 New Enterprise Creation	x	•	•	x	x	0.61	0.52	0.59	0.65	0.73	0.82
D.39 New Generation Cooperative Incentive	x	•	•	0.10	0.47	0.36F	0.43	0.52	0.62	0.75	0.90
D.40 Remediation Tax Credit	1.4	1.4	6.4	0.63	0 ¹	11.49	14.93	14.61	14.29	13.98	13.67
D.42 Shared Care	x	x	•	x	x	x	x	x	x	x	x
D.43 Disabled Access	x	x	x	x	x	x ^F	x	x	x	x	x
D.44 Mature Worker Child Care	x	x	x	•	x	x	x	x	x	x	x
D.45 Strategic Initiative Investment Income Tax Ref.	x	•	•	2.0	2.00	2.00	2.00	2.00	2.00	2.00	2.00
D.46 Neighborhood Preservation Act	x	•	•	0.10	0.14	0.32	0.73	0.73	0.73	0.73	0.73
D.47 Bank Franchise	x	x	x	0.22	0.68	0.40F	0.40	0.40	0.40	0.40	0.40
D.48 Demolition Tax Credit	x	x	x	x	x	x	x	x	x	x	x
D.49 Development Tax Credit	x	x	x	x	x	x	x	x	x	x	x
D.50 Special Needs Adoption Credit	x	x	0.02	0.08	x	x	x	x	x	x	x

Figures in millions of dollars; x = Not applicable • = Less than \$50,000, * = Less than \$5,000; F = Forecasted numbers
 *2001 figures are provisional subject to significant variations due to timing of credit redemption.
 1This credit was not available for tax year 2002.

Exhibit 7 - Part 2

Corporation Income Tax Expenditures - Federal Statutes

1998-2008

	1998	1999	2000	2001	2002	2003	2004^F	2005^F	2006^F	2007^F	2008^F
Exclusions											
A.01 Exempt Organizations	NA	NA	NA	NA	NA						
A.02 Credit Unions	4.0	4.8	2.8	2.9	3.2	3.3	3.6	4.0	4.3	4.6	4.6
A.03 State and Local Interest (GO)	33.0	33.5	28.3	50.9	52.5	54.1	55.7	59.1	60.8	62.6	62.6
A.04 State and Local Interest (Other)	7.0	6.2	5.4	9.4	9.7	10.1	10.2	10.6	11.1	11.6	11.6
A.11 Utility Conservation Subsidies	•	•	NA	NA	NA	NA	NA	NA	NA	NA	NA
Deductions											
A.06a Accelerated Depreciation ¹											
Rental Property	0.6	2.0	1.9	0.6	0.2	-0.2	-0.7	-1.3	-2.1	-2.7	-3.3
Other Property	6.8	9.7	13.0	-14.1	-18.6	-12.1	-43.6	-61.4	-82.4	-105.8	-129.3
Machinery and Equipment	120.2	164.0	148.3	335.7	217.8	116.7	-275.6	-242.1	-222.5	-206.4	-191.3
A.06c Percentage-Cost Depletion											
Gas and Oil	•	0.1	0.1	•	•	•	•	•	•	•	•
Other Fuels	0.8	1.1	1.1	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-Metallic Minerals	0.7	0.7	0.4	0.7	0.9	1.1	1.1	1.1	1.2	1.2	1.2
A.06d Business Start-Up Costs	10.6	9.7	9.6	13.5	17.8	22.4	27.4	32.3	34.6	35.5	36.4
A.06e Research/Development Costs											
Mineral Exploration/Development	•	•	•	•	•	•	•	•	•	•	•
Gas and Oil	•	•	•	•	•	•	•	•	•	•	•
Other Fuels	•	•	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Non-Metallic Mineral	•	•	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
A.06g Farm Cash Accounting Rules											
Expensing Certain Costs	•	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Multi-Year Production Costs	•	•	•	9.5	12.2	9.7	20.4	20.0	23.8	23.3	23.1
A.06h Charitable Contributions				9.5	12.2	0.2	0.2	•	•	•	•
A.06i Reserve for Bad Debts				0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
A.06l Foreign Sales Corporations											
Deferral of Income for Disc/FSC	20.7	22.8	NA	NA	NA	NA	NA	NA	NA	NA	NA
Extraterritorial Income Exclusion	•	•	21.7	39.8	42.5	45.5	48.6	51.9	55.6	59.4	63.3
A.06n Insurance Companies	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
A.06o Blue Cross & Blue Shield	0.9	0.8	0.9	1.0	1.2	1.1	1.1	1.0	1.1	0.9	0.8
A.06p Alaskan Native Corporation	•	•	NA	NA	NA	NA	NA	NA	NA	NA	NA
A.06q Shipping Companies	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
A.06s Property Installment Sales	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0

¹ Beginning in 2003 the OMB changed the calculation of the accelerated depreciation tax expenditure. See Appendix XI for further explanation.
 Figures in millions of dollars; NA = Not available; • = Not applicable • = Less than \$50,000; F = Forecasted numbers

Exhibit 7 - Part 2 (continued)

Corporation Income Tax Expenditures - Federal Statutes

1998-2008

	1998	1999	2000	2001	2002	2003	2004F	2005F	2006F	2007F	2008F
Deductions											
A.06t Timber Growing Costs	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
A.06u Mining Reclamation	•	•	•	•	•	•	•	•	•	NA	NA
A.06v Historic Structures	1.0	1.0	0.8	1.3	1.4	1.5	1.6	1.7	1.7	1.8	1.9
A.06w Removal of Architectural Barriers	•	•	•	•	•	•	•	•	•	•	•
A.06x Life Insurance	2.4	2.9	8.0	14.6	14.9	15.1	15.4	15.6	15.8	16.1	16.3
A.07 Foreign Corporations											
A.07a U.S. Controlled Foreign Corporations	33.1	36.3	31.8	57.8	61.5	65.2	69.3	73.7	78.8	84.3	89.7
A.07d Inventory Allocation Rules	6.0	12.7	6.8	12.1	12.7	13.4	14.0	14.8	15.5	16.3	17.2
A.08a Exemption of Certain Insurance Companies	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9
A.08c Mutuals and Cooperative Income	0.3	0.4	0.3	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
A.08d Special ESOP Rules	4.9	5.5	4.7	11.0	11.6	12.1	12.8	13.5	14.2	14.9	15.7
A.08e Deferred Taxes for Financial Firms-Foreign Income	3.0	3.8	4.1	6.2	6.5	6.7	6.9	7.1	7.1	7.1	7.1
A.08f Deferral of Gain on Sale of Farm Refiners	•	•	•	•	•	•	•	•	•	•	•
A.09 Expensing of Certain Small Investments	2.3	3.7	2.6	-1.2	-0.7	1.1	4.6	5.9	4.8	4.3	4.1
A.10 Empowerment Zones	0.9	0.5	0.5	1.8	2.5	2.5	2.6	2.9	3.2	3.5	3.8
A.11 Exclusion of Conservation Subsidies	•	•	NA	NA	NA	NA	NA	NA	NA	NA	NA
A.13 Expensing Environmental Remediation Costs	0.4	0.6	0.3	0.3	0.3	0.1	•	•	•	•	•
A.14 Employer-Provided Supplementary Unemployment Benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

*Figures in millions of dollars; NA = Not available; * = Not applicable • = Less than \$50,000; F = Forecasted numbers*